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The Uruguay Round and the world cotton market: a preliminary overview

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Summary findings

(i) The outcome of the Uruguay Round of multilateral trade negotiations will probably have a negligible impact on raw cotton, while it could have tangible implications for production and world trade in textiles and clothing. The Uruguay Round agreement as a whole will presumably increase consumer income, and the corresponding increase in fiber consumption and production is likely to be the Agreement's most important implication for the raw cotton sector. As world cotton trade has been relatively free, the Agreement on Agriculture is not likely to lead to considerable changes in market access conditions. The impact of the Agreement on Agriculture on cotton is limited also because it does not affect the domestic income support programmes in either the United States or the European Union and because the definition used for export subsidies in the Agreement does not include those applied in the cotton sector. Cotton production and prices will therefore presumably not be affected to any sizeable extent by the implementation of the Agreement on Agriculture. The liberalization of trade in textiles and apparel will have an impact on the cotton industry, as experience suggests that a liberalization of trade in textiles and clothing leads to a shift in production towards low-cost textile and clothing producers, many of which also produce cotton.

(ii) The implementation of the Agreement on Textiles and Clothing will improve market access conditions and lead to a gradual phasing-out of the Multi-Fibre Arrangement (MFA) over a period of 10 years. However, this implementation will probably change world production and consumption of textiles and clothing less than might be expected at first sight. The probable shift of production sites towards the most efficient producers in developing countries is likely to increase the geographical gap between the location of production and that of consumption and hence lead to a trade-creation effect. Given the nature of the provisions in the Agreement on Textiles and Clothing, in particular the inclusion of previously unrestricted items in the base used for the percentage reductions of quota regulations, this trade-creation effect will probably gather strength only at the end of the transition period for the gradual phasing-out of the Multi-Fibre Arrangement. Those developing countries which used to enjoy preferential access to export markets, such as least developed countries and other ACP countries, will presumably be able to benefit from the generally improved market access conditions only if they become sufficiently competitive as compared to the other developing countries which were able to expand their exports even under conditions of restricted market access. The literature on the country-specific effects of the implementation of the Agreement on Textiles and Clothing is inconclusive, partly because of the intentional complexity and non-transparency of MFA-rules, and partly because of the difference in approaches used. Regarding price effects, it has usually been argued that a removal of MFA quotas will lower prices for textiles and clothing but the exact level of this decline will probably vary by product category and country of origin even for exports to the same country of destination. More research is needed to allow for a detailed assessment of the impact of the Agreement on country-specific changes in production structures, especially those that may be caused by a repatriation of investment by developing countries that invested in other developing countries after they had filled their own MFA quotas.

Chapter I

TRENDS IN PRODUCTION, TRADE AND PROTECTIONISM BEFORE THE IMPLEMENTATION OF THE RESULTS OF THE URUGUAY ROUND AGREEMENT

A. Trends in production and trade of cotton, textiles and clothing

1. Production

1. Cotton is grown in about 80 countries. Table 1 shows that about four-fifths of these countries are in the developing world. Despite the fact that production is spread out all over the world, the five largest producers - China, the United States, India, Pakistan and the Commonwealth of Independent States (CIS) - account for about three-fourths of world cotton production. Within the CIS, Uzbekistan accounts for almost two-thirds and Turkmenia for almost one-fifth of total production. Tajikistan and Azerbaijan are other large cotton producers.

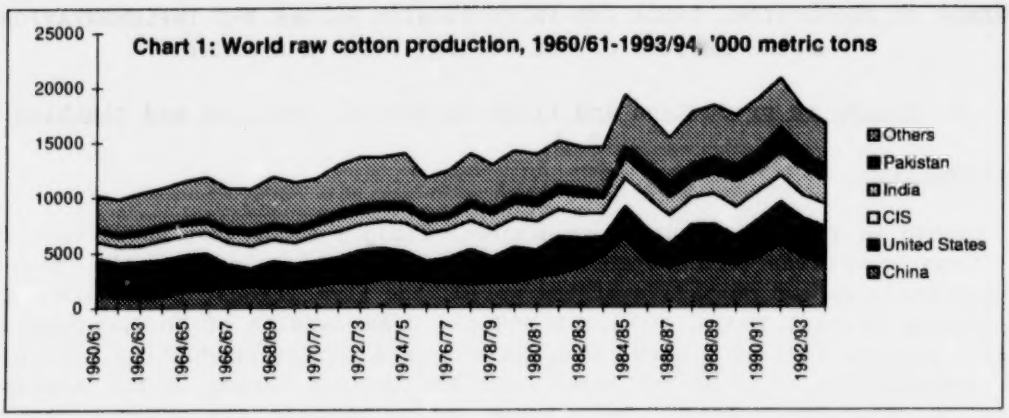
Table 1: Cotton-growing countries by geographical area, 1993

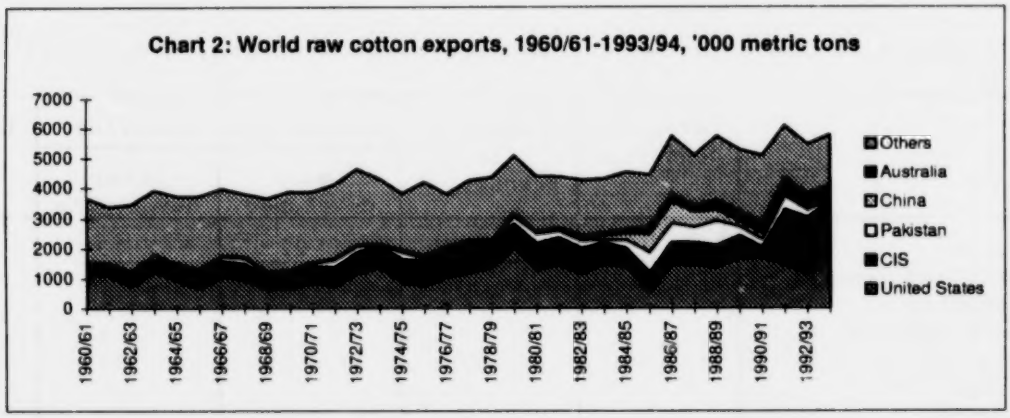
	Developed countries	Economies in transition	Developing countries		Total
			Least developed	Other developing	
Africa	1	-	22	13	36
North and Central America	1	-	1	5	7
South America	-	-	-	8	8
Asia	1	5	5	12	23
Europe	2	2	-	-	4
Oceania	1	-	-	-	1
Total	6	7	28	38	79

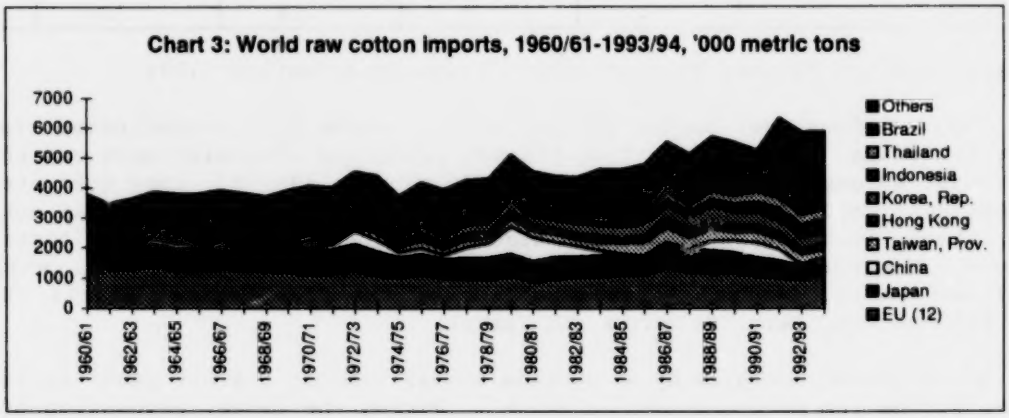
Source: United Nations Food and Agriculture Organization (1994).

2. Chart 1 shows that cotton production has become more concentrated over the last few years. Whereas the five biggest producing economies were responsible for about 60 per cent of total world production in 1980/81, they accounted for 77 per cent in 1992/93. China, the United States, India and Pakistan achieved the largest increases. Production also grew in Francophone Africa, Australia, Greece, the Syrian Arab Republic, Turkey, Paraguay and Argentina, while it declined in the Central Asian republics of the CIS, Mexico, Brazil, Egypt, Central America, Peru, Colombia and Israel.

3. World production grew by an average annual rate of 1.8 per cent, or 250,000 tons, during the period 1960/61-1993/94. During the 1980s, production grew at an average annual rate of about 2.9 per cent, or 520,000 tons. Table 2 suggests that some of the increase in production occurred in developed countries, while the bulk of it took place in developing countries. The largest increase in production occurred in China, and even the rate of growth in production by developing countries excluding China is still higher than the global rate of expansion. The absolute level of yield in developing countries other than China is, nevertheless, still significantly lower than in developed countries, economies in transition or China.







Source: ICAC, Cotton World Statistics, October 1994.

4. The average annual variation of production increased substantially after 1974/75. Whereas, up to then, the average difference between actual production and a five-year moving average was about 380,000 tons, it has been 1.14 million tons since 1975/76. This upward shift in production variation coincides with changes in agricultural policies in the United States and China, as discussed below. Table 2 also suggests that virtually all of the rise in production can be attributed to improved yields, rather than to expanded area. Moreover, the table gives evidence suggesting that the acreage used for cotton growing does not show any upward or downward trend. The area used for cotton growing has fluctuated between 29.3 million ha and 35.2 million ha during the period between 1960/61 and 1993/94, with an average acreage of 32.6 million ha. Regarding the evolution of acreage and yield in individual countries since the beginning of the 1980s, table 2 suggests that the tremendous increase in production experienced by China has been due to increases in both yield and area. Cotton production in Africa has increased by about 10 per cent since 1980/81. This increase has been entirely due to strong increases in yield - in some cases supported by an increase in the harvested area - in many small producing countries such as Benin, Burkina Faso, Côte d'Ivoire, Mali, Senegal, the United Republic of Tanzania and Togo. By contrast, Egypt's production dropped from about half to slightly more than one-fourth of the continent's total owing to a fall in harvested area. Cotton production has also grown substantially in India and Pakistan, with the increase in India's production being attributable entirely to higher yield while Pakistan has experienced an increase in both yield and, to a lesser extent, area. Cotton production in the United States has grown considerably as a result of higher yield, while the harvested area has fallen.

5. Cotton accounted for over 85 per cent of world fibre consumption before the introduction of synthetic fibers.[1] The share of cotton then fell to about 70 per cent during the 1950s and reached a level of about 50 per cent by the mid-1970s. Since then, the share of cotton in world fibre consumption has remained fairly stable. Cotton consumption in volume terms has, nevertheless, continued to rise, mainly as a result of income and population growth. According to some projections of cotton consumption until the year 2000, cotton production would in fact have to grow by about 3.3 per cent per year - rather than the approximately 2.5 per cent seen over the last 15 years or so - in order to meet the expected increase in consumption (Moir (1993, p.30)).

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[1] As pointed out below, it may be argued that the introduction of quota restrictions on trade in textiles contributed to the switch from natural to synthetic fibres, since these quotas have sometimes allowed for the export of textiles from relatively high-cost producing countries which do not produce cotton.

Table 2: Cotton area, yields and production by geographical regions, 1960/61-1993/94

	Season	Area ('000 ha)	Yield (kg/ha)	Production ('000 tons)	Index (1960/61 = 100)		
					Area	Yield	Production
World	1960/61	32,445	314	10,201	100	100	100
	1965/66	33,133	359	11,898	102	114	117
	1970/71	31,778	369	11,740	98	118	115
	1975/76	30,003	390	11,705	93	124	115
	1980/81	33,722	410	13,818	104	131	136
	1985/86	32,641	533	17,395	101	170	171
	1990/91	33,018	575	19,000	102	183	186
	1991/92	34,665	598	20,732	107	190	203
	1992/93	32,310	557	17,997	100	177	176
	1993/94	30,527	546	16,673	94	174	163
Developed market economies	1960/61	6,687	494	3,303	100	100	100
	1965/66	5,966	582	3,472	89	118	105
	1970/71	4,881	503	2,457	73	102	74
	1975/76	3,899	532	2,075	58	108	63
	1980/81	5,813	487	2,831	87	99	86
	1985/86	4,782	744	3,558	72	151	108
	1990/91	5,527	760	4,199	83	154	127
	1991/92	5,928	788	4,670	89	159	141
	1992/93	5,252	811	4,260	79	164	129
	1993/94	5,912	718	4,247	88	145	129
Economies in transition	1960/61	2,306	658	1,518	100	100	100
	1965/66	2,518	778	1,959	109	118	129
	1970/71	2,824	839	2,368	123	127	156
	1975/76	2,981	855	2,549	129	130	168
	1980/81	3,192	839	2,679	138	128	177
	1985/86	3,342	837	2,797	145	127	184
	1990/91	3,193	812	2,593	139	123	171
	1991/92	3,009	798	2,400	131	121	158
	1992/93	2,884	719	2,074	125	109	137
	1993/94	2,888	722	2,085	125	110	137
Developing countries (excl. China)	1960/61	18,151	221	4,005	100	100	100
	1965/66	19,874	242	4,819	110	110	120
	1970/71	19,257	255	4,920	106	116	123
	1975/76	18,307	260	4,761	101	118	119
	1980/81	19,797	283	5,602	109	128	140
	1985/86	19,377	356	6,893	107	161	172
	1990/91	18,710	409	7,661	103	186	191
	1991/92	19,190	416	7,990	106	189	200
	1992/93	17,344	413	7,155	96	187	179
	1993/94	16,742	394	6,602	92	179	165

Table 2 (cont'd): Cotton area, yields and production by geographical regions, 1960/61-1993/94

	Season	Area ('000 ha)	Yield (kg/ha)	Production ('000 tons)	Index (1960/61 = 100)		
					Area	Yield	Production
China	1960/61	5,303	259	1,372	100	100	100
	1965/66	4,775	345	1,648	90	133	120
	1970/71	4,816	414	1,995	91	160	145
	1975/76	4,816	482	2,320	91	186	169
	1980/81	4,920	550	2,706	93	212	197
	1985/86	5,140	807	4,147	97	312	302
	1990/91	5,588	814	4,547	105	314	331
	1991/92	6,538	868	5,672	123	335	413
	1992/93	6,830	660	4,508	129	255	329
	1993/94	4,985	750	3,739	94	290	273

Source: International Cotton Advisory Committee (ICAC): Cotton World Statistics, October 1994.

Note: Developed countries include Australia, the European Union (12), Israel, Japan, South Africa and the United States; economies in transition include the former Soviet Union and Central and Eastern European countries.

6. Table 3 shows that, since 1973, production of textiles and clothing has shifted markedly from industrialized countries to the newly industrialized economies of East Asia.

Table 3: Textile and clothing production in selected MFA members, 1991-1993

	Textiles				Clothing			
	Index 1973 =100	Annual percentage change in volume			Index 1973 =100	Annual percentage change in volume		
	1993	1991	1992	1993	1993	1991	1992	1993
EU	87	-2.4	-3.4	-6.3	71	-3.0	-2.9	-9.3
United States	120	-0.2	9.1	2.0	114	-0.3	2.3	-0.7
Japan	59	-2.7	-4.5	-12.6	71	-1.2	-3.7	-7.6
Canada	120	-5.6	-1.0	2.6	102	-10.3	-4.2	2.1
Austria	81	0.2	-2.6	-11.3	66	-3.3	-10.5	-15.8
Finland	66	-17.4	1.7	2.9	37	-23.3	-15.8	-7.7
Norway	57	0.3	-4.6	-3.1	28	-2.3	-3.0	-3.6
Switzerland	88	-3.1	-2.5	-4.0	65	1.7	-12.2	-4.7
Hong Kong [a]	174	4.3	4.2	-7.2	141	-2.7	0.9	1.8
Rep.of Korea	374	-1.9	-3.6	-8.6	462	-4.9	-9.0	-15.3
Singapore	29	7.4	-12.6	-11.7	104	-0.5	-9.7	-20.6

Source: GATT (1994c).
Notes: Data for 1993 are preliminary.
[a] The indices for Hong Kong are based on 1981 = 100.

2. Trade

7. Only about 25 per cent of total world cotton production enters world trade as exports of raw cotton, if trade within the CIS is excluded. The share would be much higher if the cotton processed by producing countries into cotton yarn and textiles were included in exports. Chart 2 suggests that, as in the case of cotton production, cotton exports are strongly concentrated. About two-thirds of cotton exports come from the CIS, the United States, Pakistan and China, and the share of exports from the CIS has more than doubled since the beginning of the 1990s. The group of "other countries" consists largely of small developing country producers which grow cotton mainly for export and whose earnings from cotton exports account for an important part of their total export earnings.

8. Evidence provided in chart 3 suggests that a relatively small group of countries have accounted for a large part of total cotton imports. Cotton imports by the European Union alone account for about one-fifth of the total. Other important cotton importers are Japan, China and the "newly industrialized economies (NIEs)", as well as the new NIEs in East and South-East Asia, in particular Taiwan Province of China, the Republic of Korea, Indonesia, Hong Kong and Thailand. However, the chart also shows that more advanced developing countries have strongly increased their share in world cotton imports over the last few years. This change reflects the fact that cotton processing is increasingly becoming concentrated in developing countries.[2] The textile industry has often been the foundation stone of industrial development, in particular in countries from East and South-East Asia. The change in trend also reflects the cost differential which has permitted the expansion of the processing of imported cotton for re-export to the industrialized countries. As lower-stage cotton processing is a labor-intensive industry, rising wage levels in industrialized countries have contributed to the shift of cotton processing to developing countries.

9. Table 4 suggests that, with the notable exception of the United States, all major industrialized countries have imported a very significant share of their cotton. The ratio of cotton imports to cotton consumption has been around 100 per cent in both Canada and Japan; it has, by contrast, significantly declined in the countries of the European Union, probably as a result of the substantial subsidization of cotton production in the EU.

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[2] This development is also reflected by the fact that developing countries as a group have become net importers of cotton as evidenced in UNCTAD (1995c, table 4).

Table 4: Ratio of net cotton imports to cotton consumption in major industrialized countries, 1954/1955-1993/1994, in per cent

	OECD	Canada	United States	EU (12)	Japan
1954/55	29	103	-37	92	95
1969/70	27	96	-35	86	100
1989/90	- 3	98	-88	78	97
1990/91	- 11	100	-90	69	98
1991/92	7	102	-69	73	97
1992/93	0	98	-51	67	94
1993/94	- 8	94	-67	71	98

Source: ICAC, Cotton World Statistics, October 1994.
Note: A minus sign indicates net exports rather than net imports.

10. Table 5 further mirrors the importance of developing countries in the trade of cotton in processed forms. In 1991, only 20 per cent of cotton-yarn and 30 per cent of cotton-fabric exports came from the main industrialized countries (EU, Japan and United States). By contrast, these countries accounted for about half of world imports of cotton yarn and fabrics. An analysis of measures which have introduced distortions in world cotton trade therefore needs to address policies adopted by developing countries in addition to those adopted by industrialized countries.

Table 5: Share of selected countries in world trade of cotton, cotton yarn and cotton fabrics, 1991
(volume in thousand tons, share in per cent)

	Cotton		Cotton yarn				Cotton fabrics			
	Imports[a]		Exports		Imports		Exports		Imports	
	000 tons	per cent	000 tons	per cent	000 tons	per cent	000 tons	per cent	000 tons	per cent
EU (12)	988	16	292	18	548	34	481	21	679	36
US	3	0	25	2	39	2	128	6	308	16
Japan	588	9	6	0	217	14	69	3	99	5
China	362	6	187	12	0	0	579	25	0	0
Pakistan	4	0	474	29	0	0	170	7	0	0
Hong Kong	226	4	14	1	282	18	160	7	271	14
India	58	1	87	5	0	0	137	6	0	0
Taiwan Prov.	333	5	17	1	79	5	85	4	27	1
Indonesia	408	6	0	0	0	0	66	3	0	0
Brazil	143	2	46	3	3	0	41	2	3	0
Egypt	63	1	81	5	0	0	26	1	2	0
Turkey	92	1	57	4	28	2	30	1	13	1
Total above	3268	51	1286	80	1196	75	1972	86	1402	75
World total	6356	100	1612	100	1590	100	2306	100	1873	100

Source: ICAC, Cotton World Statistics, October 1993.
Note: [a] 1991-1992

Table 6: Major flows in world textile and clothing trade, 1993, billion US dollars

	Textiles	Clothing
World, total	115.4	133.0
World, excluding trade within the European Union	87.3	106.7
Intra-developing economies	30.8	7.6
Developing economies to developed countries	17.9	70.0
Intra-developed countries (excl. trade within the EU)	16.8	13.7
Developed countries to developing economies	15.7	6.8

Sources: GATT (1994b) and GATT (1995).

11. Evidence given in table 6 suggests that exports of textiles from developing to developed countries accounts for about 18 per cent and that of clothing[3] for about 70 per cent of total trade flows in these items. Almost all exports from developing countries and Central and Eastern Europe to developed countries are covered by the MFA or other quota systems (i.e. non-MFA quotas on exports from Taiwan, Province of China, and voluntary export restraints on imports to Japan); this means that the bulk of trade in textiles and clothing covered by the MFA originates from developing countries and Central and Eastern European countries. According to GATT estimates based on 1990 data "approximately 11 per cent of world trade in textiles and 35 per cent of world trade in clothing ... [are] subject to bilateral agreements negotiated under the MFA" (GATT (1993, p. 32)).

B. The main problems of cotton trade for developing countries

1. Prices

12. The wide range of different qualities of cotton grown and the fact that cotton consumers demand different qualities meant that it has not been possible to successfully introduce futures and options contracts for cotton on an international commodity exchange where a large number of buyers and sellers would trade contracts for cotton in competitive conditions. The futures and options contracts that are traded on the New York Cotton Exchange basically reflect domestic market conditions in the United States. As a result, other traders cannot use these contracts when cash prices outside and inside the United States move in different directions or by different amounts, without running a large basis risk. Restrictions on cotton imports to the United States have prevented non-US-grown cotton from complying with the delivery procedures specified in contracts, which require delivery in warehouses in the United States. The New York Cotton Exchange launched a World Cotton Futures Contract on 1 October 1992 to rectify this situation by offering a cash-settled price-risk management instrument to non-US producers and users. This contract is

[3] "Textiles" refers to SITC division 65 which includes textile yarn, fabrics, made-up articles and related products excluding yarns and fabrics other than cotton, wool and man-made fibers, bags and sacks of textile materials, floor coverings of vegetable plaiting materials; "clothing" refers to SITC division 84 excluding clothing of leather, rubber and fur.

based on the Cotlook A Index (an average of the prices of the five cheapest of 13 cottons from different countries, all of which have fibers of 1-3/32 inches in length) which is denominated in US cents per pound for CIF delivery in Northern Europe.[4] However, the contract has not been successful; its trading volume fell to zero during the 1993/94 season.[5]

13. Chart 4 illustrates the evolution of cotton prices over the last three decades on the basis of the Cotlook A Index, while chart 5 illustrates the evolution of current and constant cotton prices since 1960. The charts suggest that cotton prices were fairly stable until the commodity boom of 1973 when they rose sharply. Prices have fluctuated strongly since then, falling considerably during the early 1980s and recovering during the second half of the 1980s before dropping again in more recent years. In real terms, when deflated by the US GDP deflator with 1993 equal to 100, the Cotlook A Index averaged 90 cents per pound in the late 1960s. The deflated Index shot up to 210 cents per pound in 1973/74 but has tended to fall since then. However, yields rose faster than deflated prices fell. In 1966/67, the Cotlook A Index had a nominal value of 28 cents per pound and a value in 1993-dollars of 82 cents per pound; the world average yield in 1966/67 was 350 kilograms[6] per hectare, resulting in average gross revenues per hectare of 633 1993-dollars. In 1992/93, the Cotlook A Index averaged 58 cents per pound and the world average yield was 553 kilograms per hectare, resulting in average gross revenues per hectare of 708 1993-dollars. This suggests that the real gross revenue per hectare of cotton growing has increased by about 12 per cent over the last 25 years, despite the drop in prices. However, this does not imply that profits have grown by the same amount, as costs have risen too. It is also interesting to note that the price swings of the Cotlook A Index over the last 15 years are closely correlated with China's net export position (the correlation coefficient is -0.89), as evidenced by chart 6.

2. Horizontal and vertical diversification

14. Table 7 shows that exports of cotton in raw or processed forms are a very important contributor to the foreign exchange earnings of a large number of developing countries. The table also shows that a wide range of countries, whether they process domestically grown or imported cotton, have succeeded in exporting cotton yarn, fabrics or clothing. Regarding cotton-producing developing countries, for example, the value of cotton yarn exports now exceeds that of raw cotton exports in Pakistan, Egypt, China and Brazil.

15. A noteworthy picture emerging from an analysis of developing countries' recent experience in export diversification is that none of the cotton-producing countries in sub-Saharan Africa has successfully diversified into the export of textiles and clothing, while successful export activities in the textile and clothing sector have been largely responsible for the successful diversification in countries such as Egypt, Tunisia, Haiti, Jamaica, Belize,

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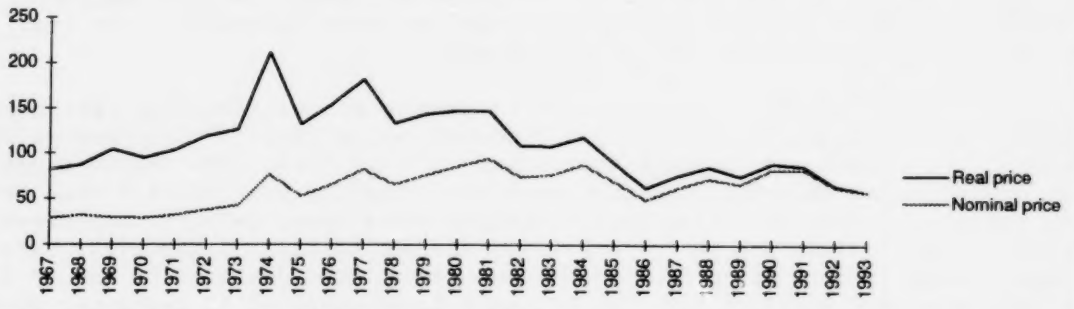
[4] For further details, see ICAC: Cotton Review of the World Situation, September-October 1992, pp. 14-15.

[5] See ICAC: Cotton Review of the World Situation, September-October 1994, p. 9. See also ICAC: Cotton Review of the World Situation, January-February 1993, pp. 9-10.

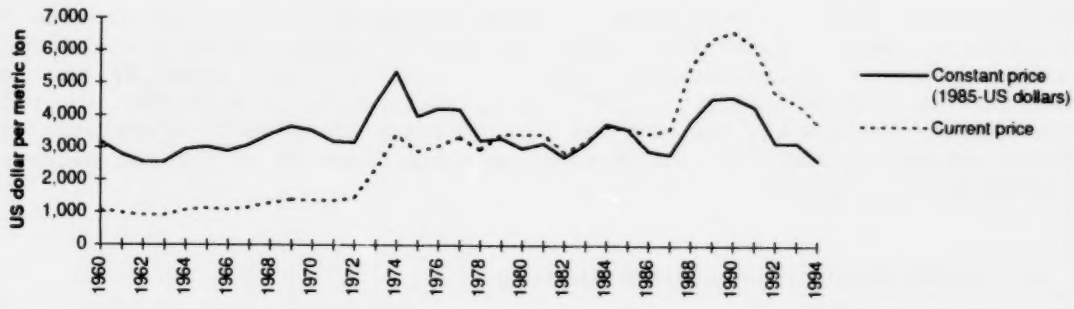
[6] 1 kilogram = 2.20462 lbs.

Chart 4: Nominal and real cotton prices, cif North Europe, US cents/lb, 1967-1993



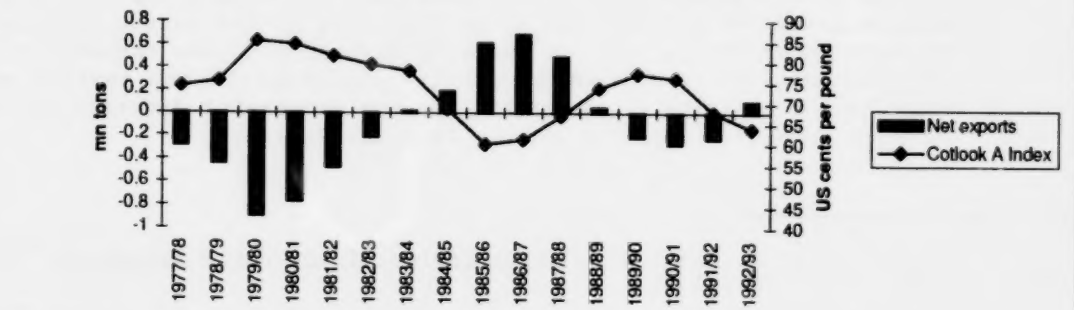
Source: Nominal price from ICAC: Cotton World Statistics, October 1994; GDP deflator from World Bank
Note: The Cotlook A Index was used as nominal price; the US-GDP deflator was used for deflation. Real prices are expressed in 1993 dollars.

Chart 5: Current and constant cotton prices, 1960-1994



Source: UNCTAD database.
Note: Current price for Egyptian cotton, Giza 45, good + 3/8. c.i.f. North Europe; current prices were deflated by the United Nations index of unit value of exports of manufactured goods from developed market economies (1985=100).

Chart 6: Net cotton exports from China and cotton prices, 1977/78-1992/93



Source: ICAC, Cotton World Statistics, October 1994.
Note: The price index shown is a three-year centered moving average.

Bangladesh, India, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, and Fiji. Mauritius is the only country from sub-Saharan Africa which has succeeded in diversifying into textile exports to a sizable extent. However, most of these successfully diversifying countries have based their textile exports on imported cotton, cotton yarn or cotton cloth, and the value added of textile exports from these countries is therefore relatively small. On the other hand, it may be argued that the transfer of technology and the improvements of a country's technological and managerial capabilities implied by the creation of a successful export-oriented textile and clothing industry are probably more important than value added for the evolution of a country's diversification and development experience.

Table 7: The importance for developing countries and territories of exports from the cotton/textiles sector as a foreign-exchange earner, 1989-1991 averages

1	2	3
Paraguay (cotton 35%) Haiti (textiles 44%) Egypt (cot./text. 29%)Sudan (cotton 38%) Tunisia (textiles 30%) Benin (cotton 58%) Burkina Faso (cot. 51%) Chad (cotton 48%) Mali (cotton 47%) Mauritius (text. 53%) Cyprus (textiles 20%) Turkey (cot./text. 26%) Bangladesh (text. 42%) Hong Kong (textil. 13%) India (cot./text. 18%) Korea, Rep. (text. 14%) Nepal (textiles 26%) Pakistan (co./tex. 60%) Sri Lanka (text. 40%) Thailand (co./tex. 14%)	Belize (textiles 15%) Dom. Republ. (tex. 20%) Jamaica (textiles 9%) Morocco (textiles 18%) Tanzania (cotton 24%) Togo (cotton 17%) Uganda (cotton 4%) Syria (cot./text. 12%) Singapore (textiles 2%) Fiji (textiles 17%)	Nicaragua (cotton 15%) Guatemala (co./tex. 8%) Barbados (textiles 5%)
	4	5
	Colombia (co./text. 6%) Costa Rica (text. 5%) Guinea-Bissau (cot. 4%) Malawi (cotton 2%) Indonesia (textiles 4%) Malaysia (textiles 6%)	Peru (cotton/text. 6%) C. Afr. Rep. (cot. 14%) Côte d'Ivoire (cot. 4%) Gambia (cotton 4%) Zimbabwe (cotton 5%)

Source: UNCTAD (1995b).
Note: The countries and territories are ranked according to the rank of foreign exchange earnings from the cotton/textiles sector in their total earnings from commodity exports. The share of these earnings in a country's or territory's total earnings from commodity exports is given in brackets. Includes all developing countries and territories for which consistent data are available.

C. Protection measures applied before the implementation of the Uruguay Round agreement

1. Raw Cotton

16. World cotton trade has been relatively free. The main distortions that have arisen are the result of the direct or indirect subsidization of production (ICAC (1993b, p.50)) by some cotton-producing countries. According to the ICAC Secretariat, four broad categories can be distinguished regarding government policies dealing directly with cotton: (a) policies designed to boost farm income, while interfering as little as possible with the level of market prices - this kind of policy has been applied by the United States, the European Union, Brazil and Turkey, which together account for about 26 per cent of total world cotton production; (b) policies designed to control the cotton sector through extensive state regulation - this kind of policy has been applied by China, the Central Asian republics of the CIS and, to a lesser extent, Egypt and the Syrian Arab Republic; this group of countries accounts for about 40 per cent of total world production; (c) policies designed to manage domestic cotton prices so as to ensure relatively stable producer prices and competitive cotton lint prices for textile mills with a view to boosting exports of cotton yarn, textiles and apparel, while allowing excess cotton stocks to be exported at international market prices - this kind of policy has been applied by Pakistan, India and Zimbabwe, which together account for about 20 per cent of total world production; and (d) free market policies, which have been followed by the Governments of Australia, Argentina, Paraguay, Mexico, Colombia, Peru, Nigeria, Israel, Guatemala, Venezuela, Nicaragua, El Salvador and some other small cotton producers; this group of countries accounts for less than 5 per cent of total world production.

(a) Increased farm income

17. Cotton farmers in the United States can choose whether or not to participate in the Government's "upland cotton programme" (ICAC (1993b, pp.130-141)). Farmers who do not participate in the programme are not subject to the domestic restriction on cotton acreage and cannot enjoy the benefits of the income support programme. The share of cotton pledged compared to total production has strongly varied over the last few years, reaching a peak of 73 per cent in 1988 and a low of 21 per cent in 1990 (ibid, p. 140). Under its upland cotton programme, the Government of the United States makes deficiency payments directly to farmers to augment their incomes. Deficiency payments are calculated by multiplying the eligible production with the difference between target prices and the higher of market prices or loan rates.[7] To be eligible for deficiency payments, farmers must agree to reduce their cotton area each year by a certain percentage within the acreage reduction programme (ARP); the specified percentage has varied between 5 per cent and 25 per cent. The eligible production is calculated by multiplying the programme yield (averages of the programme yield have been frozen since 1985) with the former crop acreage base minus land under the ARP, minus normal flex acres,[8] minus optional flex acres. Marketing loans are mandatory for cotton. Loan rates are set at 85 per

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[7] See, for example, OECD (1993, p. 154).

[8] Producers may plant certain crops on up to 25 per cent of any participating upland cotton crop acreage base. This acreage is called "flex" acreage.

cent of the five-year moving average of market prices, excluding the years with the highest and lowest prices, whereby the rates can be adjusted annually by up to 20 per cent. These loans are "non-recourse", meaning that farmers can sell on the market and pay off the loan when market prices are higher than the loan rate, while they can leave the cotton with the Commodity Credit Corporation (CCC) as full repayment of the loan when the market price is lower than the loan rate.

18. The fact that payments are made directly to farmers and other market participants implies that market transactions and prices are not distorted in the short run. In the long run, by contrast, they may increase production. On the other hand, it is difficult to assess whether the decrease in production owing to the diversion of land from cotton under the ARP balances the long-term increase in production owing to the deficiency payments. The abolition of this form of subsidization would, nonetheless, lead to reduced farm incomes from cotton growing which might cause a reduction in cotton production.

19. The Government of the United States spent an annual average of about US$ 1.13 billion on its cotton programme during the five-year period between 1988 and 1992, which corresponds to an average expenditure of 15 cents per pound of US cotton production. This means that cotton production has been supported substantially, since a comparison with the Cotlook A Index price adjusted for transportation costs between the United States and Northern Europe reveals that the expenditures represented about 25 per cent of the market value for US cotton.

20. The Government of the United States employs a three-step procedure designed to keep US-cotton prices competitive. Step 1 lays out the guidelines regarding the Government's discretionary adjustment of the "adjusted world price" (or AWP; adjustments are made to reflect US-cotton quality and production location). Under Step 2, marketing certificates must be issued to US domestic users and exporters "when the US Northern Europe price exceeds the Northern Europe price by at least 1.25 cents per pound and the AWP does not exceed 130% of the loan rate for each week of a consecutive four-week period" (ICAC (op.cit., p. 132)). Step 3 requires the establishment of a special import quota - for 90 days to purchase and an additional 90 days to import the cotton - "if the US Northern Europe price, adjusted for any certificates issued under Step 2, exceeds the Northern Europe price by 1.25 cents for each week of a consecutive ten-week period" (ibid). The US cotton programme also requires the establishment of a special global import quota when the average spot market price for SLM 1-1/16 inch cotton during the preceding month exceeds 130 per cent of this average price during the preceding 36 months. The two quota periods cannot overlap.

21. Under the US export programme, cotton, cotton yarn and unfinished fabrics manufactured entirely from US cotton can be sold on the basis of the extension of long-term credits to foreign trading partners. In addition, under the CCC's Export Credit Guarantee, which is designed "to develop, maintain or increase markets for US agricultural commodities" (ibid, p. 133), the Government assists exporters in obtaining short-term commercial financing through the provision of credit-guarantees that protect against the risk of non-payment for both commercial and non-commercial reasons.

22. In the European Union, imports are allowed and transactions are done at international market prices. The domestic support programme for cotton operated by the European Union (see ICAC (1933a)) is similar to that of the United States. Given that Greece and Spain are the only two member States of the EU which produce cotton, the EU's production support scheme for seed cotton is part

of its regional economic development strategy. It is based on a two-price concept in which the Commission of the EU establishes an intervention price and pays a subsidy to farmers through ginners when market prices fall below the intervention level. The Commission monitors the quantity of cotton produced by establishing a maximum quantity of seed cotton for which the full rate of the subsidy is paid.

23. The EU spent slightly under 500 million ECU per year on average for its cotton seed programme during the period 1987/88 through 1991/92. This amount corresponds to an average annual expenditure per pound of 0.67 ECU (or 89 US cents) and represents about 2 per cent of total expenditure of the European Agricultural Guidance and Guarantee Fund. Using the Cotlook A Index as a measure of international cotton lint prices indicates that EU subsidies corresponded to an average of about 120 per cent of market prices during this period. This implies that the EU's cotton policy has led to substantial subsidization and a considerable boost of cotton production in the EU. However, in order to assess the impact of this policy on total world production, it has to be taken into account that, even with the subsidies, cotton production in the EU represents only about 30 per cent of internal consumption and only about 1.5 per cent of world production.[9] If the current cotton support programme was terminated and not replaced by national price support programmes in Greece and Spain, while the price support programmes for grains, oilseeds and other crops were maintained so that the full effect of crop substitution would occur, annual EU cotton production would presumably fall by 150,000 to 200,000 tons; this amount would represent about 3 per cent of average world trade in cotton. This decline in supply would presumably lead to an increase in the Cotlook A Index price by about 1 US cent per pound.

24. The Government of Brazil has established intervention prices at which it purchases cotton for storage when world market prices fall. However, domestic prices have been lower than international ones when domestic supplies exceeded domestic consumption. In Turkey, designated cooperatives offer guaranteed minimum prices to growers, with the result that domestic prices have often been above world price levels.[10] Cotton imports are allowed by both Brazil and Turkey.

(b) Extensive state regulation

25. Given that China produces and consumes about 25 per cent of world cotton supplies and holds about 30 per cent of the world cotton stock, its cotton policies are briefly reviewed, even though the country is not a member of the World Trade Organization (see ICAC (1993a)). The broad objective of China's cotton policies over the last four decades has been to increase cotton production. The main instruments used to achieve that objective have included the attempt to establish an economically meaningful relationship between cotton

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[9] In 1993/94, cotton production in the EU corresponded to 4.8 per cent of world trade in cotton (see, ICAC, Cotton World Statistics, October 1994).

[10] It is, however, not clear whether the policy in Turkey actually serves to boost farm incomes, as it is meant to safeguard producers from anticipated price declines occurring during harvest periods, i.e. when supply exceeds demand. Support prices are set at a level equivalent to the current world price, and divergences of domestic from international prices observed in the past may be attributed to the "imbalance of supply and demand which gave rise to speculative trading." Statement by the Turkish delegate, in: ICAC (1993b, p.53).

and grain prices, the provision of credits to farmers, the attempt to encourage appropriate agronomic practices by offering inputs free or at subsidized prices, and the carrying out of research and extension activities. Before 1979, these instruments were used within a highly centralized economic system along the large-collective-farm model developed in the Soviet Union, while since then they have been used within the incorporated household contract system.

26. The government organization "All-China Federation of Supply and Marketing Cooperatives" is responsible for the purchasing, ginning, storing and transportation of cotton throughout the country. The Government determines the amount of cotton cooperatives are to purchase each year on the basis of the estimated needs of the textile industry and concern for welfare in rural areas. It also sets a national procurement price providing for quality premiums and discounts around a base grade. The national targets are implemented by government agencies in each province by signing (approximately 60 million) annual contracts with growers stipulating the area to be planted, the varieties and inputs to be used, the minimum quantity of seed cotton to be delivered and the guaranteed purchase price for the base grade. The national government encourages growers to produce the desired quantity of cotton through the use of input subsidies, production credit, persuasion and, in particular, attractive procurement prices. A key feature of the introduction of the new contract system in 1979/80 was a substantial increase in state procurement prices. The tripling of production between 1978/79 and 1984/85 was a result of this change. In light of the strong increase in cotton stocks that followed from the rise in production, production incentives were reduced, which allowed production to fall back to a level of about 4.5 million tons in 1992/93, i.e. a level approximately equal to domestic consumption.

27. Converting state procurement prices to US cents per pound on the basis of the logic employed in the construction of the AWP in the United States reveals that these prices ranged between 43 US cents per pound in 1987 and 84 US cents per pound in 1983. This means that, prior to 1986, procurement prices were above international market levels, while they were below these levels between 1986 and 1990 and about equal to international market levels since 1990. Cotton production is presumably stimulated when domestic procurement prices exceed international market prices, as prices of competitive crops, such as grain and oilseeds, have been free of direct government control since the mid-1980s. The State Council recently approved a proposal that would make it possible to sell and purchase cotton on the domestic market at competitively determined prices, while exports and imports would continue to be controlled by the national Government.

28. The Central Asian republics of the CIS have continued the system of central planning in the cotton sector that prevailed in the Soviet Union. Government agencies set farm- and commodity-specific plans and production quotas, as well as most prices for seed cotton, cotton lint and most of the inputs used in cotton production. In Uzbekistan, farmers are free to decide on the use of 15 per cent of the production quota and on all production that exceeds that quota. All exporters require a special license. During the 1992/93 season, procurement prices were well below international prices: farmgate prices for cotton sold to the State within the quota were about 9 US cents per pound, while farmers were able to sell their cotton produced in excess of the quota at market prices which started at around 30 cents per pound. Cotton exported from Central Asia to Northern Europe fetched a price of about 55 cents per pound at the end of

January 1993.[11] Consequences of the deterioration of the environment owing to salinity problems in connection with the drying of the Aral Sea have led to a decline in yield over the last few years.[12] This environmental factor will presumably continue to have a substantial impact on cotton production in Central Asian republics.

29. The Governments of Egypt and the Syrian Arab Republic also exert substantial control over their cotton sector, although not as extensively as Governments with centrally planned economies. Government agencies of the two countries determine producer prices, which have usually been substantially below international prices, the areas to be planted, the varieties to be selected and the inputs to be used according to a general state plan. In addition, the State owns most of the textile industry in the two countries.

(c) Managed domestic prices

30. The main objectives of cotton policies in countries which manage domestic cotton prices is to preserve stable producer prices and, in particular, to confer a competitive advantage to their spinning and textile industry. Producer prices are usually held below international market prices. These countries usually import only marginal quantities of cotton of the kind that cannot be produced domestically.

31. The Government of Pakistan has operated a dual price system whose manipulation has made it possible to determine what proportion of domestic production will be reserved for domestic use. The Government announces a benchmark price in order to keep domestic prices down. It also sets a minimum export price (MEP), which is higher than the benchmark, for exports of base grade cotton. Between 1988/89 and 1991/92, exporters had to pay an export tax corresponding to the difference between the benchmark and the MEP. Purchasing cotton was therefore economically not viable for private exporters when domestic prices exceeded the benchmark, with the result that in those periods domestic production was in fact reserved for domestic use. By contrast, the Government would move the benchmark above domestic prices when it wanted to induce exports of cotton lint. In the 1992/93 season, the export tax was calculated on the basis of a formula that makes the tax per pound of lint increase by about 2 per cent of the MEP for each one cent that the MEP is above 45 cents (for example, when the MEP is 48 cents, the tax rate is 2 per cent times 3, i.e. the difference between 48 cents and 45 cents), or 6 per cent of 48 cents, which equals 2.88 cents per pound). The effect of this system is identical to the system with benchmark prices, as the tax rate is zero when the MEP is 45 cents or lower and the Government can adjust the formula used to calculate the tax rate when it wants to change the proportion of domestic production used domestically.

32. The Government of India has managed cotton trade through flexible manipulation of the issuance of export and import licenses. In Zimbabwe, the Lint Marketing Board exerted monopoly control over the purchase, ginning and marketing of cotton within the country during the 1980s. In so doing, it

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[11] See, for example, "Cotton production policies in Central Asia", in: ICAC, Review of the World Situation, May-June 1993, pp. 9-12.

[12] See "Cotton yields in Uzbekistan", in: ICAC, Cotton Review of the World Situation, January-February 1994, pp. 9-11; and Mahdavi, G. (1994).

ensured the availability of a sufficient supply of lint to the domestic industry at prices below the level in international markets. More recently, the Government of Zimbabwe has started to price all cotton at market levels.

(d) Free market policies

33. A large number of countries provide general assistance to the cotton sector without, however, having specific programmes in place to influence production, consumption and marketing of cotton directly.

2. Cotton in processed forms

34. Trade of cotton in processed forms has been subject to distortions brought about by tariff escalation and the Multi-Fibre Arrangement (MFA). Tariff escalation can be considered an important constraint for exports of processed forms of commodities from developing countries. Table 8 shows the extent of nominal tariff escalation in the cotton industry which exports from developing to industrialized countries have had to face.[13] [14]

35. A system of non-tariff measures in the form of the MFA has governed international trade in textiles and clothing since 1974. Low and Yeats (1994, pp. 3-5) show that the coverage ratio of non-tariff measures applied by OECD-countries to exports of textile yarn and fabric (SITC 65) and clothing (SITC 84) from developing countries is considerably higher than that of measures applied to industrialized countries[15] and that "voluntary" export restraints (VERs) account for the bulk of these non-tariff measures. VERs "include measures under the MFA and similar textile quotas as well as other VERs (on quantity) that were negotiated outside the textile and clothing sectors" (ibid, p. 5).

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[13] The distinction between stages of processing applied in table 8 do not make it possible to draw any conclusions about effective rates of protection of value added, as only broad groups of products rather than narrowly defined individual products are distinguished.

[14] For a comparison of pre- and post-Uruguay Round tariffs on processed forms of cotton, see table II.5 in UNCTAD (1995a).

[15] The ratios are 52.1 for developing countries compared to 9.0 for developed countries in the case of textile yarn and fabric, and 64.3 for developing countries compared to 7.0 for developed countries in the case of clothing.

Table 8: Trade-weighted nominal tariffs on cotton and cotton products imported by main developed countries from developing countries, 1988, 1992 and post-Uruguay Round, percentages (1)

Product category by stage of processing (2)	Canada				United States of America				Japan				European Union			
	from developing countries				from developing countries				from developing countries				from developing countries			
	All	Asia	America	Africa	All	Asia	America	Africa	All	Asia	America	Africa	All	Asia	America	Africa
1988 (3)																
Lint	0.45	6.34	2.68	0.00	1.59	1.51	1.68	n.a.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yarn	12.51	12.54	12.47	12.50	8.31	8.43	8.26	8.04	5.12	5.12	5.09	5.10	6.05	6.00	6.08	5.97
Fabrics	17.58	17.75	16.68	17.25	8.42	8.57	7.83	7.92	6.34	6.34	6.30	6.30	10.00	10.00	10.00	10.00
Articles	22.50	22.50	22.50	22.50	8.97	8.84	9.41	7.58	11.18	11.18	11.20	11.20	12.96	12.95	13.01	13.03
Clothing	23.40	23.42	23.13	23.18	16.88	16.79	17.14	17.48	13.85	13.85	15.51	14.77	13.62	13.61	13.51	13.68
1992																
Lint	0.23	5.23	7.34	0.00	1.33	1.43	0.24	n.a.	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00
Yarn	12.49	12.50	12.48	12.50	7.92	8.02	8.01	7.42	5.28	5.28	5.10	5.10	6.04	6.01	6.04	6.00
Fabrics	17.40	17.56	16.18	15.18	8.52	8.65	8.00	8.07	6.38	6.38	6.30	6.30	10.00	10.00	10.00	10.00
Articles	22.50	22.50	22.50	n.a.	8.62	8.41	9.42	9.02	11.19	11.19	11.20	11.20	12.96	12.96	13.02	12.95
Clothing	23.60	23.59	23.78	23.43	16.99	16.81	17.35	18.30	14.05	14.05	14.61	12.52	13.56	13.55	13.45	13.61
Post-Uruguay Round (4)																
Lint	0.15	3.35	4.70	0.00	1.10	1.18	0.20	n.a.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yarn	8.19	8.20	8.18	8.20	7.86	7.95	7.94	7.42	3.72	3.72	3.78	3.98	4.02	4.01	4.03	4.00
Fabrics	11.21	11.32	10.45	9.81	8.30	8.44	7.74	7.93	4.32	4.25	4.20	4.20	8.00	8.00	8.00	8.00
Articles	14.30	14.30	14.30	n.a.	7.13	7.01	7.59	7.44	6.54	6.53	7.23	7.30	11.96	11.96	11.99	11.94
Clothing	14.91	14.91	15.02	23.43	15.93	15.77	16.21	17.17	9.38	9.38	9.75	8.41	11.97	11.97	11.99	11.97

Source: UNCTAD TRAINS database.

Notes:
(1) The measured tariffs are average most-favoured-nations (MFN) tariffs, where behind the average MFN-tariff applied by developed countries lies a range of different tariffs, from duty-free or zero tariff treatment to tariff peaks. In addition, bilateral trade preferences such as through the Generalized System of Preferences (GSP) and the Lome Convention are not taken into account by the measured tariffs. The measured tariffs therefore over-estimate the tariffs developing countries actually face. Tariff escalation is defined as the tariff wedge between the processed and the unprocessed or raw product. The average tariffs shown in the table use as trade weights the imports from all sources from the respective geographical region of developing countries into the respective developed market economy. "n.a." means "not applicable".
(2) See table A4 in the annex for the Harmonized System lines included in the product categories.
(3) Except for the United States, for which 1989-figures are shown.
(4) Preliminary - the rates shown are those offered rather than those finally agreed upon. The trade weights used are the same as those used to calculate the 1992-figures.

Chapter II

EXTENT TO WHICH THE URUGUAY ROUND AGREEMENT HAS DEALT WITH THESE MEASURES

36. The two parts of the agreements of specific importance to the cotton industry are those on agriculture and on textiles and clothing. The Agreement on Agriculture deals with issues related to raw cotton and addresses concessions and commitments countries are to undertake on market access, domestic support programmes and export subsidies. The Agreement on Textiles and Clothing sets out a ten-year plan for phasing out the MFA, with quotas on textile and apparel imports being eliminated and import tariffs on these items being reduced.

A. The Agreement on Agriculture[16]

1. Market access

37. Taking 1986-1988 as the base period, the commitment on market access within the Agreement on Agriculture foresees: (a) tariffication, i.e. the replacement of non-tariff measures[17] by tariffs bound to the level that provides substantially the same level of protection as the non-tariff measures - this means that actual tariffs can be below but not above the previous level of protection; it also means, however, that most non-tariff measures in the agricultural sector will be removed immediately with the Agreement's entry into force; (b) the reduction of tariffs, including those resulting from tariffication, by an average of 36 per cent in developed countries and 24 per cent in developing countries, with a 15 per cent (10 per cent for developing countries) minimum reduction for each tariff line being required. Developed countries need to undertake these reductions within a period of six years, while developing countries are allowed to take 10 years to make the reductions. Least developed countries are exempted from the requirement to reduce tariffs but are not allowed to maintain non-tariff measures; (c) minimum access commitments when imports of a product subject to tariffication were below 5 per cent of domestic consumption during the base period. In such cases, the minimum access opportunity to be provided corresponds to 3 per cent of domestic base-period consumption in the first year, rising to 5 per cent by the end of the year 2000. Minimum access opportunities for tariffied products where imports exceeded 5 per cent of domestic consumption in the base period must be maintained at the level that existed during the base period.[18]

38. The minimum access provision applies to cotton imports by the United States, as import quotas amount to about 27,000 tons or 1.2 per cent of domestic

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[16] The main part of the following discussion on country-specific impacts of the agreement on agriculture draws on: ICAC Secretariat: "Uruguay Round GATT Agreement and cotton", in: ICAC: Cotton Review of the World Situation, July-August 1994, pp. 18-19. See also Coton et développement, No. 12, décembre 1994, pp. 28-29, and UNCTAD (1995d).

[17] The Agreement specifically mentions the following non-tariff measures: quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state-trading enterprises, and voluntary export restraints.

[18] Certain agricultural products may enjoy special treatment, if they meet specified criteria, and thereby be exempted from the tariffication but not the minimum access requirement. Cotton does not fall into this category of products.

consumption. Implementation of the GATT provisions would hence lead to an import quota on cotton of 52,000 tons in 1995 and to an increase of this quota to 86,000 tons during the following six-year period. However, even with the import quota at 27,000 tons, current actual imports are below 1,000 tons. It is therefore unlikely that the needed adjustments will cause a sizable rise in cotton imports by the United States.[19]

39. Other important cotton-producing countries which limit cotton imports will be affected only marginally by the market access provisions of the Uruguay Round agreement, given the exceptions that the market access provision of the Agreement on Agriculture foresee for developing countries and the fact that least developed countries are exempted from these provisions altogether. This means that most important cotton-producing developing countries, including those with large textile industries such as India and Pakistan, will not allow for a decrease in their tariffs on cotton imports; by contrast, Egypt will reduce its tariffs on cotton imports as shown in table A3 in the annex. This table also shows the tariff schedules for other developing countries which are important importers of cotton.

2. Domestic support

40. The total Aggregate Measurement of Support (AMS) reduction commitments of the Agreement foresee a reduction of domestic support in favour of agricultural producers over six years (10 years for developing countries) by 20 per cent from the average during the period between 1986 and 1988. Developing countries, including least developed countries, have committed themselves to reductions by 13.3 per cent. The reduction commitments apply to sector-wide levels of support rather than to support for individual commodities. Domestic support measures which have only a minimal impact on trade, i.e. the so-called "green box" policies, are excluded from reduction commitments. Such policies include conservation programmes, crop insurance, disaster payments, and research and extension programmes, as well as income support that is "decoupled" from production. Also excluded from the commitment are payments under production-limiting programmes if they are on the basis of fixed area and yield (i.e. if they are "decoupled" from current production) or on a maximum of 85 per cent of the base level of production. Further, the *de minimis* provision exempts from the reduction commitment those payments which do not exceed 5 per cent (10 per cent for developing countries) of the value of production of a basic product (in the case of product-specific support) or of the value of total agricultural production (in the case of non-product-specific domestic support).

41. Apart from the definition of some forms of income support as not being trade distorting, the fact that all commodities are considered together and that a large number of payments are excluded from the AMS total results in the exclusion of both deficiency payments under the US-agricultural programmes and compensation payments under the reformed Common Agricultural Policy (CAP) in the European Union. The reason for this is that the current AMS in the United States is lower than that to be achieved by the year 2000. Regarding the European Union, it can be expected that the commitments that its member States have made under the CAP-reform programme will lead to a reduction in income support to the level the Agreement requires these countries to reach by 2000/2001. As from 1993, for example, compensation payments for cotton seed

[19] See table A2 in the annex for the tariff schedule of the United States; table A1 shows the schedules for Canada, the European Union and Japan.

producers have been incorporated into the new system of set-aside under which producers "qualify for payments per hectare to compensate for the price reductions in .. [this sector], on the condition that they take part of their land out of production" (OECD (1993, pp. 133-134)). In addition, direct payments have to a large extent replaced market price support since the same date. These income support payments per hectare "are calculated on the basis of historic yields and are in general linked to the past levels of cultivated area" (ibid, p. 135).

3. Export subsidies

42. Based on average 1986-1990 levels, the Agreement foresees: (a) a reduction of annual budgetary outlays for export subsidies for agricultural products by 36 per cent over six years, with an initial cut of at least 6 per cent and equal annual installments thereafter; (b) a reduction of the quantity of products eligible to receive export subsidies by 21 per cent, with an initial cut of at least 3.5 per cent and equal annual installments thereafter; and (c) a commitment not to circumvent these provisions, for example by tying food aid to commercial exports. Developing countries are not required to reduce subsidies for the marketing of exports or for internal transportation.

43. Export subsidies as defined in the Agreement are irrelevant in world cotton trade, as no component of either the cotton programme of the United States or the seed cotton programme of the European Union is considered an export subsidy under the Agreement. The long-term trade credits for trade partners of US exporters and the short-term credit guarantees for US exporters which are part of the US export programmes are, for example, considered as forms of development aid and hence exempt from the export subsidy calculations.

B. The Agreement on Textiles and Clothing

44. The Agreement on Textiles and clothing[20] provides for the progressive phasing-out, over a ten-year period, of all MFA bilateral quotas and all other quantitative restrictions which are not consistent with GATT rules. A Textile Monitoring Body will be established to supervise the implementation of the Agreement. The MFA will be phased out in three stages by the end of 2004 as a result of the implementation of the Uruguay Round agreement. In each stage, importers of textiles and clothing will eliminate part of their bilateral quota arrangements and replace them by tariffs, thus transferring their imports from the MFA to GATT rules. In phase 1, which was due to be completed by the beginning of 1995, importers of textiles and clothing had to integrate at least 16 per cent of the total volume of their imports in 1990 into the GATT. During the second phase, importers have to transfer to GATT rules products that account for another 17 per cent of 1990 imports by 1998, and an additional 18 per cent by the year 2002. The remaining products have to be integrated to GATT rules by the end of the year 2004, when the MFA will be completely phased out. At each of the first three stages, products have to be chosen from the following categories: tops and yarns, fabrics, made-up textile products, and clothing. The annual increase in the established growth rate (i.e. the growth rate carried over from the former MFA restraints) which has to be applied to the remaining restrictions during each of the first three stages were determined as 16 per cent, 25 per cent and 27 per cent during the 3-4-3 year periods, respectively.

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[20] For a more detailed discussion of the elements of the Agreement on Textiles and Clothing, see UNCTAD (1995a, pp. 9-16) and UNCTAD (1995e).

The Agreement also includes provisions which foresee that, as part of the integration process, all non-MFA restraints on imports of textiles and clothing, whether covered by GATT or not, will be brought into conformity with GATT rules and disciplines within one year following the entry into force of the WTO Agreement, or phased out progressively according to a programme whose length cannot exceed the duration of the Agreement. In addition, the Agreement covers all contracting parties that have ratified the WTO Agreement rather than just the signatories of the MFA.

45. During a transitional period of up to three years following the conclusion of the Uruguay Round, importing countries are allowed to apply "transitional safeguard" actions against individual countries whose exports cause serious damage - or threaten do to do so - to the relevant industry of the importing country, provided that there was a sharp and substantial increase in imports from the country concerned. Products that have enjoyed such transitional safeguard action for more than one year become subject to the growth rates applied to other products for which protection is being phased out. Products integrated into GATT 1994 under the integration programme and those already under restraint are not eligible for transitional safeguards. However, products integrated into GATT 1994 can benefit from the Agreement on Safeguards which provides for safeguards during a period of one year immediately following the integration of a product into GATT 1994 under the integration programme. The Agreement accords preferential treatment to developing countries in the sense that conditions under which imports from developing countries will be exempted from safeguard measures relate to the minimum share of these imports in total imports of that product by the importing country. In addition, developing countries can apply safeguard measures for a longer period than industrialized countries and can re-impose those measures after a shorter period of time (see GATT (1993, pp. 53-54 and p. 74) and UNCTAD (1995e, para. 27-28 and 87-93)).

46. The preferential treatment of developing countries in the Uruguay Round agreement is reflected in the Agreement on Textiles and Clothing (see Gatt (1993, p. 75)) in the special treatment accorded to least developed countries, as well as to Members which are: (a) small suppliers[21] to which meaningful increases in market access possibilities must be given by allowing them to step ahead one stage in the growth process (i.e. exporting countries which are subject to MFA quotas and whose restrictions in volume terms did not exceed 1.2 per cent of total restrictions in an importing MFA-member at the end of 1991 enjoy the growth factor of 25 per cent from the first year of operation and 27 per cent as of the fourth year) and new entrants to this sector for which the development of commercially significant trading opportunities must be allowed; (b) Members who did not participate in the fourth MFA; (c) cotton-producing exporting Members; (d) wool-producing developing countries; and (e) countries with a significant proportion of their trade in outward processing. However, no specific thresholds were laid down for the trade covered under (b)-(e).

47. With the elimination of quantitative trade restrictions over the next 10 years, tariffs will become the main instrument of border protection in the textiles and clothing sector; however, these tariffs will be reduced as well. The tariff reduction on imports by developed countries from all developing countries will amount to about 22 per cent [GATT (1994a, p. 11)] - tariffs on

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[21] The countries and territories covered by this provision include: (1) Colombia, Macau and Uruguay as exporters to Canada; (2) Peru and Sri Lanka as exporters to the European Union; (3) Sri Lanka as exporter to Finland; and (4) Argentina, Costa Rica, Jamaica, Macau, Peru, Uruguay, and the former Yugoslavia as exporters to the United States (see UNCTAD (1994b, p. 125)).

imports by North America will be reduced by 15 per cent and those by Western Europe by 20 per cent, respectively - if the tariff equivalent of the phasing-out of binding MFA quotas is not taken into account. The textiles and clothing sector is one of the trade sectors characterized by below-average tariff cuts, above-average post-Uruguay Round tariffs and - as evidenced by table 9 - only modest changes in the distribution of tariffs. For example, the share of developed country imports of textiles and clothing which is subject to tariffs above 15 per cent will be reduced by only 7 percentage points, i.e. from 35 per cent to 28 per cent, by the implementation of the Uruguay Round agreement. Table 8 suggests that the reduction in tariff escalation on imports of textiles and clothing by developed countries from developing countries is limited, especially concerning imports by the United States and the European Union.

Table 9: Developed country tariff profile regarding imports of textiles and clothing, percentages of imports

Duty-free		0.1 - 5 %		5.1 - 10%		10.1 - 15%		15.1 - 35%		over 35%	
Pre UR	Post UR	Pre UR	Post UR	Pre UR	Post UR	Pre UR	Post UR	Pre UR	Post UR	Pre UR	Post UR
2	4	6	14	27	29	30	25	33	27	2	1

Source: GATT (1994a, p. 12).

Chapter III

THE LIKELY IMPACT OF THE IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENT ON THE COTTON INDUSTRY

A. Raw cotton

48. An increase in consumer incomes and a corresponding increase in fiber consumption is likely to be the most important implication of the Uruguay Round agreement for the world cotton industry. The Agriculture Agreement is not likely to affect market access conditions, as it is difficult to imagine that the United States would start to import substantial amounts of cotton and because the exemptions granted to developing countries mean that other producing countries that limit imports will not be affected by the market access provisions. The impact of the Agriculture Agreement on cotton is limited also because it does not affect the domestic income support programmes in either the United States or the European Union and because the definition used for export subsidies in the Agreement does not include those applied in the cotton sector. Cotton production and prices will therefore presumably not be affected to any sizable extent by the implementation of the Agreement. By contrast, if price supports, income subsidies, government intervention in production decisions and barriers to trade in cotton and other agricultural commodities were eliminated completely, average cotton prices might decline, presumably resulting in increased demand for cotton and giving a boost to production (see ICAC (1993b, p.51)).

49. The liberalization of trade in textiles and apparel will have an impact on the cotton industry, as experience suggests that a liberalization of trade in textile and apparel leads to a shift in production towards low-cost textile producers, many of which also produce cotton. The Agreement on Textiles is therefore likely to create a tendency for cotton mill use to shift toward such producing countries. It could also be argued that the quota restrictions contributed to the switch from natural fibers, such as cotton, to synthetic fibers and that a removal of the quotas may reverse this switch and increase cotton demand and consumption on a global scale.

B. Textiles and clothing

50. The liberalization effects of the Agreement on Textiles and Clothing will presumably not occur in full in the near future, as trade liberalization will most probably be rather limited during the transition period. Four main reasons may support this view (see also UNCTAD (1994b, pp. 126-131; 1995a, pp. 9-16; and 1995e, pp. 21-27) and Low and Yeats (1994, pp. 9-12)):

(1) Importing countries can to a large extent choose what products they want to have integrated into GATT first, with the result that they will most probably maintain until the final stage restrictions on the most sensitive products for which quota levels have always been filled;

(2) The inclusion of previously unrestricted items increases to a sizable extent the volume of a country's total imports which is used as the base for the integration programme with the result that importers can postpone lifting existing MFA restrictions to later stages of the liberalization process; for example, the three biggest importers of textiles and clothing - the United States, the European Union and Canada - have included only those products which had so far not been subject to the MFA or to any other quota system in their

list of products for which trade is to be liberalized during the first phase (see UNCTAD (1995a, charts 1-3));

(3) As the notion of "market disruption" still forms a basic element of the Agreement, importers can invoke the "transitional safeguard" mechanism; in addition, the Agreement on Safeguards still permits the application of further safeguards for a limited period of time;

(4) The inclusion of non-MFA members in the Agreement, together with the three aspects just mentioned, implies that the country coverage of MFA-type quantitative restrictions can be extended to those countries.

51. Independently of the actual level of benefits (or losses) accruing to developing countries as a group, it seems clear that new investment will be stimulated in light of the fact that the Agreement will foster exports of improved quality and from productive sources by removing the incentives to take advantage of quota scarcities. As Cable (1987, p. 185) points out, experience with liberalization measures in the textiles and clothing sector, such as the adoption of global quotas by Norway, suggests that there will be a strong increase of exports from Hong Kong. However, given that Hong Kong, as well as other major exporters, may be faced with supply constraints, especially in labour-intensive garment-making, the export surge could occur in other countries with low labour costs and in countries which enjoy comparative advantage in terms of market proximity, i.e. Mediterranean countries for the European Union and the Caribbean and Central America for the United States. Countries which have managed to combine high technology, low labour costs and fashion sophistication, such as Italy and Hong Kong, may also benefit. A concentration of supply capacities in the relatively more efficient producing countries is likely to reduce prices for textiles and clothing on a global basis.

52. The impact of the phasing-out of the MFA on exports from developing countries differs between those countries that used to enjoy preferential access to export markets, such as the ACP countries, and other countries. As signatories of the Lomé Convention, ACP States used to be exempted from the MFA, i.e. their exports of textiles and clothing to the European Union were not subject to quota restrictions. It seems, however, that some ACP countries, such as Mauritius, have been faced with warnings regarding the imposition of MFA-type arrangements. The phasing-out of the MFA will nonetheless mean a gradual erosion of the preferential market access of the ACP countries compared to other developing countries. On the other hand, the share of ACP exports of MFA-type goods imported by the EU was relatively small compared to that of other developing countries over the period 1989-1993.[22] What is more, Mauritius alone probably accounts for almost two thirds of the total share of ACP countries. However, the gradual loss of preferences which ACP countries will experience on the market of the EU might, at least partially, be compensated by improved access to other developed-country markets, including the United States, Canada and Japan. The Caribbean Basin Initiative has, for example, not included preferential access for exports of textiles and clothing. However, in order to be able to benefit from these opportunities, the ACP countries have to become sufficiently competitive compared to other developing countries, especially those which were able to expand their exports to the EU even under the MFA.

53. The literature on the country-specific effects of the Agreement on Textiles and Clothing is inconclusive. This is partly because an assessment of the

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[22] For evidence, see GATT (1994c, p. 19).

restrictiveness of the MFA on a country-by-country basis is difficult and its results depend on the approach used. Looking at trade-weighted average tariff equivalents of quotas is standard in this context. However, Anderson and Neary (1994) argue that these equivalents are an a-theoretical *ad hoc* measure of trade restrictiveness. Evaluating the restrictiveness of US policy towards seven major exporters of textiles and apparel under the MFA from 1982 to 1988 on the basis of a "trade restrictiveness index" (TRI) in which each "quota change receives a weight equal to the marginal welfare contribution of a 1 per cent rise in the quota relative to the marginal welfare contribution of a 1 per cent rise in all quotas" (p. 173), Anderson and Neary show that the correlation between the TRI and the standard measure is not significantly different from zero. In addition, the "results show wide annual swings in the TRI as well as very significant differences in the movement of the index across countries. Toward Hong Kong, [the Republic of] Korea and Thailand, US trade policy became more restrictive. Toward Bangladesh, Indonesia, and Mexico, policy became more liberal. Toward India, the policy evolution was more mixed but on balance liberal" (p. 184). This means that it is difficult to generalize on the potential effects of the phasing-out of the MFA. Whether or not, and by how much, a specific developing country exporter of textiles and clothing benefits from the implementation of the Agreement on Textiles and Clothing is probably very much product and market-of-destination specific, as well as dependent on the exporter's supply capacity and competitiveness in both production and marketing.

54. Assessing the country-specific impact of phasing out MFA quota restrictions is difficult for a number of other reasons as well. Issues connected to these reasons are, however, of crucial importance for the impact of the Uruguay Round agreement on developing countries' diversification prospects. It has generally been argued that: (1) the MFA has, for example, restricted access to developed country markets and that this is the main reason for the sometimes limited success in diversifying into the textile and clothing sector; (2) quota-restricted exporting countries have tried to maximize the unit value of their exports, meaning that they have concentrated on exports of products of the highest quality and value-added within a specific quota; they may also have been able to export a variety of products corresponding to the variety of quotas; on the other hand, the trade- restricting effects of the MFA may have discouraged development of supply and export capacities in areas which were not covered by quotas but which would be likely to face quotas if successfully developed; and (3) developing countries which filled their country-specific quotas invested in other developing countries whose access to developed country markets had not yet been restricted, despite the possibility that they may have been higher-cost producers.

55. It seems clear that the mere existence of market access opportunities and competitive supply structures will not allow a developing country to raise its exports unless it disposes of the marketing skills required to penetrate a new export market. Newcomers in international textile and clothing trade have often been able to penetrate new export markets by going into joint ventures with companies from other developing countries who were well established in that market. Developing country exporters that have exported within MFA quotas will be faced with the question as to whether they can continue to export products of the same quality and diversity (corresponding to the diversity of quotas) as they used to. They may have to adjust their production sites to produce lower-quality material for which their comparative advantage may be greater, as well as maybe concentrate production on just a few items. Such adjustments would presumably lead to considerable trade diversion.

56. Another question that arises for developing countries regards the conditions for attracting investment in the textile and clothing sector from other developing countries in the post-MFA period. Such investment has led to transfer of technology that can be mastered by countries in which technological and managerial capabilities are still relatively low. It may be argued that the interplay of economies of scale, externalities and national or international spill-overs of knowledge and technology is crucial for the diversification experience of "latecomers", i.e. less diversified developing countries compared to developed countries or relatively less diversified developing countries compared to both more diversified developing and industrialized countries. The textile and clothing sector may have been a catalyst for industrial development in many developing countries over the last three decades or so because it is a sector where internal economies of scale are small but international spill-overs of technology and knowledge are large - the latter being a consequence of reverse investment by quota-restraint developing countries. More research will be required to allow for a better assessment of the impact of the Uruguay Round agreement in this area.

Annex

URUGUAY ROUND OF TARIFF SCHEDULES OF SELECTED DEVELOPED COUNTRIES REGARDING COTTON

Table A1:
Uruguay Round tariff schedule of selected developed countries regarding cotton

Tariff item number a/	Description of products	Base rate of duty			Bound rate of duty		Final implementation date
		Ad valorem (%)	Other	Unbound or bound	Ad valorem (%)	Other	
1	2	3			4		5
		CANADA					
5203	**Cotton, carded or combed**						
5203.00.90	Other (than slivers)	12.5		B	8.0		2004
		EUROPEAN UNION					
5201	**Cotton, not carded or combed**:						
5201.00.10	-Rendered absorbent or bleached	0.0			0.0		
5201.00.90	-Other	0.0			0.0		
5202	**Cotton waste** (including yarn waste and garnetted stock):						
5202.10	-Yarn waste (including thread waste	0.0			0.0		
	-Other:						
5202.91	--Garnetted stock	0.0			0.0		
5202.99	--Other	0.0			0.0		
5203	**Cotton, carded or combed**	1.4		B	0.0		1 July 2000
		JAPAN					
5201	**Cotton, not carded or combed**	0.0			0.0		
5202	**Cotton waste** (including yarn waste and garnetted stock)						
5202.10	Yarn waste (including thread waste	0.0			0.0		
	Other:						
5202.91	Garnetted stock	0.0			0.0		
5202.99	Other	0.0			0.0		
5203	**Cotton, carded or combed**	0.0			0.0		

Source: World Trade Organisation.
a/ Harmonised System code.

Table A2:
Uruguay Round tariff schedule of the United States of America regarding cotton

Tariff item number a/	Description of products	Base rate of duty			Bound rate of duty		Implementation period from /to	Special safeguard c/
		Ad valorem (%)	Other	Unbound or bound b/	Ad valorem (%)	Other		
1	2		3		4		5	6
5201.00	**Cotton, not carded or combed**: Having a staple length under 28.575 mm (1-1/8 inches):							
5201.00.05	Harsh or rough, having a staple length under 19.05 mm (3/4 inch).....	0.0		U	0.0		1995	
	Other:							
5201.00.14	See note 2	0.0		U	0.0		1995	
5201.00.18	Other.....		36.9¢/kg d/	U		31.4¢/kg		SSG
	Having a staple length of 28.575 mm (1-1/8 inches) or more but under 34.925 mm (1-3/8 inches): Harsh or rough, having a staple length of 29.36875 mm (1-5/32 inches) or more and white in color (except cotton of perished staple, grabbots and cotton picking)							
5201.00.24	See note 3		4.4¢/kg			4.4¢/kg	1995	
5201.00.28	Other.....		36.9¢/kg			31.4¢/kg		SSG
	Other:							
5201.00.34	See note 4		4.4¢/kg			4.4¢/kg	1995	
5201.00.38	Other.....		36.9¢/kg d/			31.4¢/kg		SSG
	Having a staple length of 34.925 mm (1-3/8 inches) or more:							
5201.00.60	See note 5		1.5¢/kg			1.5¢/kg	1995	
5201.00.80	Other.....		36.9¢/kg d/			31.4¢/kg		SSG
5202	**Cotton waste** (including yarn waste and garnetted stock):							
5202.10.00	Yarn waste (including thread waste).....	0.0		U	0.0		1995	
	Other:							
5202.91.00	Garnetted stock:							
A	Having a staple length under 28.575 mm (1-1/8 inches).....	5.0		U	4.3			
B	Having a staple length 28.575 mm (1-1/8 inches) or more.....	5.0	+ 11¢/kg e/		4.3			
5202.99	Other:							
	Card strips made from cotton having a staple length under 30.1625 mm (1-3/16 inches) and lap waste, sliver waste and roving waste:							
5202.99.10	See note 6	0.0			0.0		1995	
5202.99.30	Other.....		36.9¢/kg d/			7.8¢/kg		SSG
5202.99.50	Other.....	0.0			0.0			
5203.00	**Cotton, carded or combed**: Fibers of cotton processed but not spun:							
5203.00.10	See note 7	5.0			5.0		1995	
5203.00.30	Other.....		36.9¢/kg d/			31.4¢/kg		SSG
5203.00.50	Other.....	5.0			4.3			

Source: World Trade Organisation.

Table A2 contn'd

Notes:

1. There shall be permitted entry an aggregate quantity of cotton, entered under the provisions of additional notes 2 through 7, of not less than the total quantity specified as follows: 1995: 41,926.8 metric tons (mt); 1996: 48,850.4 mt; 1997: 55,773.9 mt; 1998: 62,697.5 mt; 1999: 69,621.0 mt; 2000 and thereafter: 76,544.6 mt.
An additional aggregate quantity of 10,000 metric tons is reserved for Mexico under this note.

2. There shall be permitted entry an aggregate quantity of cotton, not carded or combed, having a staple length under 28.575 mm (1-1/8 inches) (except harsh or rough cotton, having a staple length under 19.05 mm (3/4 inch)), entered under subheading 5201.00.14 during the 12-month period beginning September 20 in any year, of not less than the total quantity specified as follows: 1995: 8,495.05 mt; 1996: 10,837.45 mt; 1997: 13,179.85 mt; 1998: 15,522.25 mt; 1999: 17,864.65 mt; 2000 and thereafter: 20,207.05 mt.
Of the quantitative limitation provided for in this note, access levels are reserved as follows for entry under the provisions of this note:
India & Pakistan (aggregate): 908,764 kg; China: 621,780 kg; Egypt and Sudan (aggregate): 355,532 kg; Brazil: 280,648 kg; former USSR: 215,512 kg; Peru 112,469 kg; Indonesia and Netherlands New Guinea: 32,381 kg; British West Indies (except Barbados, Bermuda, Jamaica, or Trinidad and Tobago): 9,671 kg; British West Africa (except Nigeria and Ghana): 7,259 kg; Ecuador: 4,223 kg; Nigeria: 2,438 kg; Argentina: 2,360 kg; British East Africa: 1,016 kg; Paraguay: 395 kg; Honduras: 341 kg; Haiti: 107 kg; Iraq: 88 kg; Colombia: 56 kg.

3. There shall be permitted entry an aggregate quantity of harsh or rough cotton, not carded or combed, having a staple length of 29.36875 mm (1-5/32 inches) or more but under 34.925 mm (1-3/8 inches) and white in color (except cotton of perished staple, grabbots and cotton pickings), entered under subheading 5201.00.24 during the 12-month period beginning August 1 in any year, of not less than the total quantity specified as follows: 1995: 900.0 mt; 1996: 1,000.0 mt; 1997: 1,100.0 mt; 1998: 1,200.0; 1999: 1,300.0 mt; 2000 and thereafter: 1,400.0 mt.

4. There shall be permitted entry an aggregate quantity of cotton, not carded or combed, having a staple length of 28.575 mm (1-1/8 inches) or more but under 34.925 mm (1-3/8 inches) (except harsh or rough cotton, not carded or combed, having a staple length of 29.36875 mm (1-5/32 inches) or more and white in color) but including cotton of perished staple, grabbots and cotton pickings, entered under subheading 5201.00.34 during the 12-month period beginning August 1 in any year, of not less than the total quantity specified as follows: 1995: 5,200.0 mt; 1996: 6,460.0 mt; 1997: 7,720.0 mt; 1998: 8,980.0 mt; 1999: 10,240.0 mt; 2000 and thereafter: 11,500.0 mt;

5. There shall be permitted entry an aggregate quantity of cotton, not carded or combed, having a staple length of 34.925 mm (1-3/8 inches) or more, entered under subheading 5201.00.60 during the 12-month period beginning August 1 in any year, of not less than the total quantity specified as follows:
1995: 25,500.0 mt; 1996: 28,420.0 mt; 1997: 31,340.0 mt; 1998: 34,260.0 mt; 1999: 37,180.0 mt; 2000 and thereafter: 40,100.0 mt.

6. There shall be permitted entry an aggregate quantity of card strips made from cotton having a staple length under 30.1625 mm (1-3/16 inches), and lap waste, sliver waste and roving waste of cotton, all the foregoing the product of any country or area including the United States, entered under subheading 5202.99.10 during the 12-month period beginning September 20 in any year, of not less than the total quantity specified as follows: 1995: 1,835,427 kg; 1996: 2,135,427 kg; 1997: 2,435,427 kg; 1998: 2,735,427 kg; 1999: 3,035,427 kg; 2000 and thereafter: 3,335,427 kg.
Of the quantitative limitation provided for in this note, access levels are reserved as follows for entry under the provisions of this note:
United Kingdom: 653,695 kg; Japan: 154,917 kg; Canada: 108,721 kg; France: 34,385 kg; India and Pakistan (aggregate): 31,582 kg; Germany: 11,540 kg; Netherlands: 10,317 kg; China: 7,857 kg; Switzerland: 6,711 kg; Belgium: 5,830 kg; Egypt: 3,689 kg; Italy: 3,215 kg; Cuba: 2,968 kg.

7. There shall be permitted entry an aggregate quantity of fibers of cotton processed but not spun, entered under subheading 5203.00.10 during the 12-month period beginning September 11 in any year, of not less than the total quantity specified as follows:
1995: 1,000 kg; 1996: 1,300 kg; 1997: 1,600 kg; 1998: 1,900 kg; 1999: 2,200 kg; 2000 and thereafter: 2,500 kg.

a/ Harmonised System code.
b/ Unless otherwise noted, the rate of duty set forth in this column reflects the most recent bound rate for the described period prior to the effective date of this schedule.
c/ The products in respect of which the provisions of Article 5 of the Agreement on Agriculture may be invoked are designated by the symbol "SSG" in this column.
d/ Rates incorporate the tariffication of nontariff measures.
e/ The base rate to be used for the staging of this good to the full concession rate is 5%.

Table A3:
Uruguay Round tariff schedule of selected developing countries regarding cotton

Tariff item number a/	Description of products	Base rate of duty			Bound rate of duty		Final implementation date b/	Special safeguard c/
		Ad valorem (%)	Other	Unbound or bound	Ad valorem (%)	Other		
1	2	3			4		5	6
	BRAZIL							
5201	**Cotton, not carded or combed**	55			55		1995	
5203	**Cotton, carded or combed**	55			55		1995	
	CHINA d/							
5201	**Cotton, not carded or combed**	100			76			SSG
5202	**Cotton waste** (including yarn waste and garnetted stock):							
5202.10	Yarn waste (including thread waste)	20			18			
5202.90	Other:							
5202.91	Garnetted stock	20			18			
5202.99	Other	20			18			
5203	**Cotton, carded or combed**	100			76			SSG
	REPUBLIC OF KOREA							
5201	**Cotton, not carded or combed**							
5201.00.10	Seed cotton	10			2			
5201.00.90	Other							
5201.00.901	Less than 232mm of fibre-length	10			2			
5201.00.902	Not less than 232mm, but less than 254mm of fibre-length	10			2			
5201.00.903	Not less than 254mm, but less than 285mm of fibre-length	10			2			
5201.00.904	Not less than 285mm of fibre-length	10			2			
5202	**Cotton waste** (including yarn waste and garnetted stock)							
5202.10	Yarn waste (including thread waste)	10			2			
5202.9	Other							
5202.91	Garnetted stock	10			2			
5202.99	Other	10			2			
5203	**Cotton, carded or combed**	10			2			
	PAKISTAN							
5201	**Cotton, not carded or combed**				100		1995	
5202	**Cotton waste** (including yarn waste and garnetted stock)							
5202.10	Yarn waste (including thread waste)				100		1995	
5202.90	Other							
5202.91	Garnetted stock				100		1995	
5202.99	Other				100		1995	
5203	**Cotton, carded or combed**				100		1995	

Table A3 contn'd:
Uruguay Round tariff schedule of selected developing countries regarding cotton

Tariff item number a/	Description of products	Base rate of duty			Bound rate of duty		Final implementation date b/	Special safeguard c/
		Ad valorem (%)	Other	Unbound or bound	Ad valorem (%)	Other		
1	2	3			4		5	6
				THAILAND				
5201	**Cotton, not carded or combed**	5		U	4.5			
5202	**Cotton waste** (including yarn waste and garnetted stock)							
5202.10	Yarn waste (including thread waste)	5		U	4.5			
	Other :							
5202.91	Garnetted stock	5		U	4.5			
5202.99	Other	5		U	4.5			
5203	**Cotton, carded or combed**	5		U	4.5			
				INDIA				
5201	**Cotton, not carded or combed**	40		U	100.0			
5202	**Cotton waste** (including yarn waste and garnetted stock).							
5202.10	Yarn waste (including thread waste)	80		U	100.0			
5202.91	Garnetted stock	80		U	100.0			
5202.99	Other	80		U	100.0			
5203	**Cotton, carded or combed**	80		U	150.0			
				INDONESIA				
5201	**Cotton, not carded or combed**	30			27.0			
5202	**Cotton waste** (including yarn waste and garnetted stock).							
5202.10	Yarn waste (including thread waste)	60			40.0			
5202.91	Garnetted stock	60			40.0			
5202.99	Other	60			40.0			
5203	**Cotton, carded or combed**	60			40.0			
				EGYPT				
5201-5203	**Raw cotton, waste & cotton to carded or combed**	10			5.0			

Source: World Trade Organisation.

a/ Harmonised System code;

b/ 2004 unless otherwise specified;

c/ The products in respect of which the provisions of Article 5 of the Agreement on Agriculture may be invoked are designated by the symbol "SSG" in this column;

d/ China also maintains quota restrictions for cotton imports.

Table A4:
Harmonized System tariff lines included in the product categories of table 8

Cotton lint:	520100-520300
Cotton yarn:	520511-520790
Cotton fabrics:	520811-521225
Cotton articles:	630221, 630231, 630251, 630291, 630311, 630391, 630492, 630520, 630611, 630621, 630641, 630691
Cotton clothing:	610120, 610220, 610322, 610332, 610342, 610412, 610422, 610432, 610442, 610452, 610462, 610510, 610610, 610711, 610721, 610791, 610821, 610831, 610891, 610910, 611020, 611120, 611211, 611420, 611592, 611692, 620112, 620192, 620212, 620292, 620322, 620332, 620342, 620412, 620422, 620432, 620442, 620452, 620462, 620520, 620630, 620711, 620721, 620791, 620821, 620891, 620920, 621132, 621142

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